COUNTY OF LOS ANGELES
TREASURER AND TAX COLLECTOR

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MARK J. SALADINO
TREASURER AND TAX COLLECTOR

June 5, 2008

TO: Supervisor Yvonne B. Burke, Chair
Supervisor Gloria Molina
Supervisor Zev Yaroslavsky
Supervisor Don Knabe
Supervisor Michael D. Antonovich

FROM: Mark J. Saladino
Treasurer and Tax Collector

SUBJECT: SALE OF 2008-09 TAX AND REVENUE ANTICIPATION NOTES

This memorandum is to advise you that earlier today my office sold $500 million in Tax and Revenue Anticipation Notes ("Notes") at a 3.00% coupon rate and a yield of 1.58%. The issuance of the 2008-09 Notes, authorized by your Board on May 13, 2008, is a key component of the County's cash management program. We are pleased to report that the 1.58% borrowing cost of the Notes represents the second lowest interest rate achieved since the inception of this program in 1977.

The successful pricing of the Notes was due to a combination of recent events affecting the short-term tax-exempt market. Most importantly, the Federal Reserve Board lowered interest rates on seven separate occasions since September 2007, bringing its overnight federal funds rate to 2.00%. This placed significant downward pressure on short-term interest rates and helped to lower yields in the tax-exempt market. Some issuers such as the County have been able to benefit from this interest rate environment due to strong underlying credits that do not require bond insurance or bank letters of credit. Because our 2008-09 Notes are structured with a final maturity of June 30, 2009 and do not include any form of credit enhancement, they were ideally situated to take advantage of current market conditions.

In connection with this year's note issuance, my office requested that each of the three credit rating agencies assign short-term ratings to the 2008-09 Notes. For the 12th consecutive year, Standard & Poor's, Moody's and Fitch Ratings each assigned their highest short-term ratings to the County's Notes. I have attached to this memorandum a copy of the ratings report from each of these agencies and will forward a final Official Statement as soon as it becomes available. If you have any questions regarding either the 2008-09 Notes or the ratings reports, please contact me directly or have your staff contact Glenn Byers of my office at 974-7175.

MJS:GB:DB
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Attachments

c: Executive Officer, Board of Supervisors
Chief Executive Officer
Auditor-Controller
County Counsel

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Fitch Rates Los Angeles County, California's $500MM TRANs 'F1+' Ratings

04 Jun 2008 9:31 AM (EDT)

Fitch Ratings-San Francisco-04 June 2008: Fitch rates Los Angeles County, California's (the county) $500,000,000 2008-2009 tax and revenue anticipation notes (TRANs) series A 'F1+'. The notes will be sold through negotiation on or about June 4, 2008. The notes are dated July 1, 2008 and mature June 30, 2009. Also, Fitch affirms its 'A' rating on various issues secured by county lease rental payments, and 'A-' rating on other lease-secured issues, as detailed below. The Rating Outlook for all long-term obligations is Stable.

Fitch's 'F1+' rating is the highest for short-term debt and reflects the sound note repayment structure, strong coverage of all note repayment set-asides, and the availability of substantial borrowable resources throughout the fiscal year. The repayment deposit structure sets aside 100% of principal and interest two months in advance of note maturity.

The county's long-term credit quality also is a rating factor, reflecting a diverse and mature economy, sound general fund financial operations including high year-end reserves, strong management efforts to achieve fiscal balance, and low debt burden balanced by the considerable challenge presented by the Department of Health Services (DHS) ongoing financial imbalance. Currently, DHS's reliance on general fund support is affordable, but projections show sizable deficits ahead, which could be exacerbated by pending and possible changes in state and federal funding.

The notes are secured by a first lien on unrestricted revenue in fiscal 2009, which is projected to cover note principal and interest 12.8 times (x). Funds for repayment will be set-aside based on an aggressive schedule beginning in December 2008. By Jan. 31, 2009 more than one-half of the estimated principal and interest due will be impounded; the full amount will be set-aside by April 30. The projected cash flow covers all five set-asides well, ranging from 1.9x-11.4x. Also, the county has a substantial pool of resources available for intrafund loans, with month-end balances in these funds ranging from $1.1 billion-$4.2 billion over the last few years. The fiscal 2009 cash flow projects ending the year with a moderate cash balance relative to the budget. Historically, the county's actual ending balances have been higher than originally forecast.

The projected cash flow is based on the county's proposed budget, and does not include an estimated $331.6 million in reduced state revenue or higher county costs if the State of California's budget as detailed in its May Revision to the proposed budget is implemented. As in prior years, the county will enact a proposed budget by fiscal year end, and make adjustments based on the state's budget once it is enacted. For the upcoming fiscal year, this incorporates significant uncertainty given the degree of state funding reductions and program changes proposed to social services and health care. Also, the county's proposed budget acknowledges the potential loss of $305.9 million in federal funds, including $240 million in reduced reimbursements to DHS. However, the county's cash flow holds up well to Fitch's stress scenarios that model potential state and federal impacts.

While acknowledging the county's considerable efforts and progress in achieving fiscal balance in its health delivery system, Fitch remains concerned about projected rising operating deficits. Near-term balance is proposed to be achieved through a major delivery system restructuring, an effort that Fitch believes will be difficult to implement and could result in less than anticipated savings. To date, though, operating efficiencies implemented during fiscal 2008 have resulted in better than expected savings. Nonetheless, a five-year forecast shows rising annual deficits and is based on assumptions regarding state and federal funding that have a high degree of inherent uncertainty. The rising gap will need to be filled by general fund resources or savings through restructuring and additional efficiencies.

Overall, Los Angeles County's financial performance in non-health areas shows sound policies and practices, resulting in operating surpluses each of the last 10 fiscal years, building up strong reserves. Also, the county's debt burden is low and future issuance is expected to be manageable.

Ratings affirmed at 'A' by Fitch:
--County of Los Angeles, certificates of participation series 1993 Disney Parking Project;
--Los Angeles County Capital Asset Leasing Corp., Edmund D. Edelman Children's Court lease revenue bonds series A and lease revenue bonds series 2004A, 2006A and 2008A;
--Los Angeles County Public Works Financing Authority, lease revenue bonds series 2005 (Calabasas Landfill Project).

Ratings affirmed at 'A-' by Fitch:

--The City of Los Angeles, Calif.'s (Exposition Park West Asset Leasing Corporation) certificates of participation, series

1999A and 1999B(Department of Public Social Services Facility);
--Sonnenblick-Del Rio El Monte Asset Leasing Corporation, Calif.'s senior certificates of participation, series 1999 (Department of Public Social Services Facility);
--Sonnenblick-Del Rio El Monte Asset Leasing Corporation, Calif.'s senior certificates of participation, series 2001 (Department of Public Social Services Facility-Phase II);
--Sonnenblick-Del Rio West Los Angeles Leasing Corporation, Calif.'s senior certificates of participation, series 2000 (Department of Public Social Services Facility).

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Moody's Investors Service

Global Credit Research
New Issue
4 JUN 2008

New Issue: Los Angeles (County of) CA

MOODY'S ASSIGNS MIG 1 RATING TO TAX AND REVENUE ANTICIPATION NOTES OF LOS ANGELES COUNTY, CA

$500 MILLION IN SHORT TERM DEBT AFFECTED

County
CA

Moody's Rating

ISSUE	RATING
2008-09 Tax and Revenue Anticipation Notes, Series A	MIG 1

Sale Amount	$500,000,000
Expected Sale Date	06/05/08
Rating Description	Tax and Revenue Anticipation Notes

Opinion

NEW YORK, Jun 4, 2008 -- Moody's Investors Service has assigned a MIG 1 rating to Los Angeles County's $500 million issue of 2008-09 Tax and Revenue Anticipation Notes, Series A. The Notes are being issued to fund the County's mid-year cash flow needs and are secured by a pledge of unrestricted, fiscal 2009 general fund receipts. The rating reflects the County's stable financial position, a proposed budget based on conservative assumptions, cash flow projections which reflect that conservative budget, and the board's demonstrated willingness to make significant program cuts when necessary to maintain balanced operations. The County's total liquidity is a strength reflected in the Note rating. The County still faces a number of notable long-term challenges, particularly in the health department, but these do not affect the credit quality of its Note issue for the upcoming fiscal year.

For a more detailed analysis of the County's overall credit please see our report published on March 3, 2008.

COUNTY'S GENERAL FUND AND OVERALL LIQUIDITY ARE STRONG AND CONTINUE TO IMPROVE OVER PRIOR YEARS.

After an extended period of cash surpluses in its general fund, the County is once again, very conservatively, projecting that it will experience a cash drawdown of $505 million in fiscal 2008. However, the currently projected 2008 ending cash balance of $1.378 billion is $665 million higher than the original projection of $712 million, because the County's cash position at the beginning of 2008 was much higher than originally projected. The currently estimated cash draw down of $505 million for 2008 is consistent with the originally projected decline of $544 million. Despite the estimated drawdown, the estimated 2008 ending cash balance still represents 9.6% of receipts, which is a very comfortable cash position for a county of this size. Also noteworthy is the fact that the County's 2008 projection includes estimates for the last two months which likely reflect some extremely conservative assumptions. Based on recent history, it is highly likely that the final June 30, 2008 cash position will surpass the current estimates. In each of the last seven years through 2007, the actual ending cash balance has been significantly higher than the originally projected amount.

The County's overall financial position at the end of 2008 is expected to be essentially unchanged from the previous year. The total general fund balance is not expected to vary significantly from the previous year's $3.1 billion and unreserved fund balance of $2.6 billion. Although the county has a history of conservatism in this estimate as well, the actual June 30, 2008 fund balance is likely to be slightly less than the June 30, 2007 level of $3.1 billion or 23.4% of General Fund revenues. Within the balance at June 30, 2007, we believe that much of the unreserved portion of $2.6 billion represented reserves of varying degrees of availability, which afforded the County ample operating flexibility; it appears as though the County did not have to rely on them to a significant degree, which itself is a positive credit factor.

Cash flow projections show that the County expects a $675 million reduction in its cash position in fiscal 2009, with a year-end cash balance of $702 million or 4.8% of receipts. This projection appears reasonable and conservative, reflecting an increase of 3.6% in Salaries and Benefits, an increase of 1.7% in Welfare Warrants, and a 5.0% increase in Services and Supplies. These changes combine for a total increase of 3.6% for these three key categories. This small increase is consistent with the budget. The County's locally generated revenues have increased substantially in recent years, although the increases projected in 2009 are much smaller. Property taxes are projected to grow by 3.6% in 2009, while in 2008 they are estimated to grow by 4.1%. The small increase in property taxes partly reflects the statewide housing slump, although the increase may be a little higher. The County estimates a relatively small impact from the Governor's May proposals if adopted, because in the past it has been successful in curtailing state mandated programs in tandem with reduced funding levels.

The amount of money available for intrafund borrowing remains ample. For the end of fiscal 2008, the County estimates that gross funds available for intrafund borrowing will be $1.1 billion. Assuming at least this much will be available at the end of fiscal 2009, when combined with the projected cash balance, total available liquidity should equal $1.852 billion, or 12.6% of cash receipts.

KEY STATISTICS

Projected Amount Borrowed as % of Receipts, FY 2009: 3.4%

Actual Ending Cash as % of Receipts, FY 2007: 13.2%

Projected Ending Cash as % of Receipts, FY 2008: 9.6%

Projected Ending Cash as % of Receipts, FY 2009: 4.8%

Historical Minimum Audit Cash as % of Revenue, FY 2005-07: 13.2%

Alternate Liquidity (Estimated 6/30/09 based on 6/30/08): $1.15 billion

Alternate Liquidity % of FY 2009 Receipts: 7.8%

Pledged Set-Aside timing (months before June): 4.3 months

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STANDARD & POOR'S

RATINGSDIRECT®

June 4, 2008

Los Angeles County, CA's Tax Anticipation Notes Rated 'SP-1+' On Diverse Economy

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NEW YORK (Standard & Poor's) June 4, 2008--Standard & Poor's Ratings Services assigned its 'SP-1+' short-term rating to Los Angeles County, Calif.'s 2008-2009 series A tax revenue anticipation notes (TRANs).

The rating reflects the county's very diverse economy, with a population of 10.3 million, and good long-term creditworthiness ('AA-' issuer credit rating [ICR]); a note structure that includes early set-asides of TRAN repayment amounts; and strong projected debt service coverage (DSC) of 2.37x using net general fund cash balances at note maturity, as well as historically conservative county cash flow projections.

Securing the TRANs is a first lien on lawfully available taxes, income, revenues, and other unrestricted money received by the county and attributable to fiscal 2009. The county is not authorized to levy a tax for the repayment of the notes. The county resolution requires the set-aside of $155 million for note repayment from the county's first unrestricted money after Dec. 20, 2008; $135 million after Jan. 1, 2009; $50 million after Feb. 1, 2009; $40 million after March 1, 2009; and $120 million, plus accrued interest, after April 20, 2009.

The county projects strong 2.37x coverage at maturity of the fiscal 2009 TRANs using net general fund cash balances alone, consistent with the high cash coverage of recent years. The county's cash flow projections over the past few years have, in fact, proven conservative. The county's actual cash coverage of TRANs sold in fiscals 2004, 2005, 2006, 2007, and 2008 were 1.80x, 2.61x, 4.10x, 3.41x, and 3.64x respectively -- higher than respective projected cash coverage of 1.75x, 1.29x, 1.64x, 1.80x, 2.20x, and 2.36x at the time the original TRANs were sold. In addition to the $702.9 million of general fund cash that the county projects at fiscal year-end 2009, the county has access to other significant internal cash sources if general fund revenues do not meet projections. These additional sources include a variety of other available county funds expected to total $1.25 billion at fiscal year-end 2008, including the tax collector's trust fund ($175 million) and a departmental trust fund ($417 million) held outside the general fund. Including these resources, at fiscal year-end 2008 levels, 2008-2009 TRANs coverage at maturity rises to a very strong 4.8x. The county does not intend to issue any more notes during the fiscal year, although it is legally permitted to do so.

The rating action affects roughly $500 million in debt.

Complete ratings information is available to subscribers of RatingsDirect, the real-time Web-based source for Standard & Poor's credit ratings, research, and risk analysis, at www.ratingsdirect.com. All ratings affected by this rating action can be found on Standard & Poor's public Web site at www.standardandpoors.com; select your preferred country or region, then Ratings in the left navigation bar, followed by Credit Ratings Search.